

Message Text

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INFO AMEMBASSY WARSAW
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AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
USMISSION USBERLIN

C O N F I D E N T I A L BERLIN 04530

C O R R E C T E D C O P Y - T E X T (P A R A 3 .)

E.O. 11652: GDS
TAGS: ACLM, US, GE
SUBJECT: AMBASSADOR'S MEETING WITH FOREIGN BONDHOLDERS
- PROTECTIVE COUNCIL PRESIDENT JOHN PETTY

REF: STATE 157723 (NOTAL)

1. BACKGROUND ACTIVITIES AND GOALS OF FOREIGN BONDHOLDERS
PROTECTIVE COUNCIL WERE AIRED THOROUGHLY IN A CALL JULY 8
ON AMBASSADOR BY COUNCIL PRESIDENT JOHN PETTY. PETTY
REVIEWED HISTORY OF THE COUNCIL FROM ITS CREATION IN 1933
THROUGH THE UPSURGE IN COUNCIL ACTIVITIES VIS-A-VIS
EASTERN EUROPEAN COUNTRIES IN THE 1970'S THAT HAS
RECENTLY PRODUCED SETTLEMENTS WITH BULGARIA, ROMANIA, AND
HUNGARY. DRAWING ON THE EXAMPLE OF THE SETTLEMENT
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REACHED 3 WEEKS AGO WITH BULGARIA, PETTY DESCRIBED THE
APPROACH OF THE COUNCIL TO OBTAIN REDEMPTION BY FOREIGN
GOVERNMENTS OF DOLLAR BONDS OF PREDECESSOR GOVERNMENTS.
PETTY MENTIONED THAT IN THE BULGARIAN CASE, A REFERENCE
IN A PROTOCOL ACCOMPANYING THE 1963 BILATERAL US-BULGARIA
CLAIMS SETTLEMENT PROVIDED A BASIS FOR THE BOND SETTLEMENT.

2. PETTY SAID THERE ARE TWO TYPES OF SETTLEMENTS. THE FIRST PROVIDES FOR A LUMP SUM REDEMPTION OF BONDS TO A VALUE OF, SAY 40 PERCENT, OF THE BOND FACE VALUE PLUS A PROVISION FOR INTEREST. THE SECOND INVOLVES REDEMPTION AT 100 PERCENT OF FACE VALUE PLUS A PROVISION FOR INTEREST WITH PAYMENT EXTENDED OVER A PERIOD OF 30-40 YEARS. PETTY SAID THE LATTER APPROACH EASES THE FOREIGN EXCHANGE BURDEN OF THE SETTLEMENT. SETTLEMENTS TYPICALLY PROVIDE FOR A PERIOD IN WHICH IDENTIFICATION OF HOLDERS OF OUTSTANDING BONDS IS MADE, FOLLOWED BY REDEMPTION OF BONDS. THE SETTLEMENT ALSO PROVIDES A TERMINAL DATE BEYOND WHICH REDEMPTIONS CEASE. ASKED ABOUT CITIZENSHIP OF BONDHOLDERS, PETTY SAID THE COUNCIL ATTEMPTS TO OBTAIN INDEMNIFICATION OF ALL BONDHOLDERS COVERING DOLLAR ISSUES FLOATED ON THE U.S. CAPITAL MARKET. IN THE ROMANIAN AND HUNGARIAN SETTLEMENTS, HOWEVER, THE COUNCIL ACCEDED TO DEMANDS THAT ONLY U.S. NATIONALS BE INDEMNIFIED UNDER THE AGREEMENT.

3. PETTY SAID THE COUNCIL TAKES A FLEXIBLE VIEW OF THE SEQUENTIAL RELATIONSHIP OF BOND SETTLEMENTS TO PROPERTY CLAIMS SETTLEMENT, SUBJECT TO ADJUDICATION BY THE FOREIGN CLAIMS SETTLEMENT COMMISSION. IN CONTACTS WITH CUBA, FOR EXAMPLE, THE COUNCIL DISCUSSED REVERSING THE USUAL SEQUENCE OF PROPERTY CLAIMS SETTLEMENT FOLLOWED BY BOND SETTLEMENT. THE AMBASSADOR SAID OUR PREFERENCE IN THE CASE OF THE GDR

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IS TO FOLLOW THE NORMAL PATTERN, I.E., PROPERTY CLAIMS SETTLEMENT FOLLOWED BY SETTLEMENT OF DEFAULTED BONDED DEBT OF PUBLIC ENTITIES, MUNICIPALITIES AND GOVERNMENT GUARANTEED BONDED DEBT OF CORPORATIONS LOCATED IN THE PRESENT TERRITORY OF THE GDR.

4. PETTY COULD NOT RECALL FACE VALUE OF DEFAULTED DOLLAR BONDS BUT THOUGHT IT MIGHT BE AROUND \$21 MILLION. HE PROMISED TO PROVIDE ADDITIONAL INFORMATION.

5. DETAILED MEMCON WILL BE FORWARDED TO DEPARTMENT.

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